BANK OF CANADA
BANQUE DU CANADA

# Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Spring 2011 Survey

Vol. 8.1 4 April 2011

## Overview

- Businesses remain positive about the economic outlook, although some forward-looking indicators have eased from the levels recorded in recent surveys, and the strength in commodity prices has raised expectations for costs and inflation.
- Driven by optimism among businesses involved in commodity-related activity, firms, on balance, continue to expect sales growth to increase over the next 12 months. Efforts to expand or to improve competitiveness underpin plans to increase investment, and employment intentions remain solid.
- As the recovery advances, more firms—particularly those in the Prairies—report operating near capacity, but labour shortages remain subdued. While the balance of opinion on input costs rose to a survey high, the balance on output prices moderated, in part because of strong competition. Inflation expectations have moved up but remain concentrated within the Bank's inflation-control range.

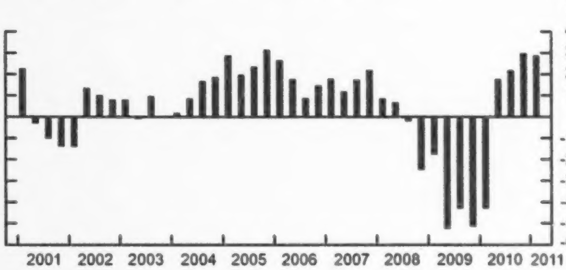
## Business Activity

On balance, firms reported an increase in sales growth over the past 12 months **(Chart 1)**. They expect sales to grow at a greater rate over the next 12 months **(Chart 2)**, although the balance of opinion declined from its level in the winter survey, since a number of firms in the services sector expect sales growth to moderate to a more sustainable pace following a strong rebound over the past 12 months. Some firms also

**Chart 1: Firms report a pickup in sales growth over the past year . . .**

Balance of opinion*

Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?



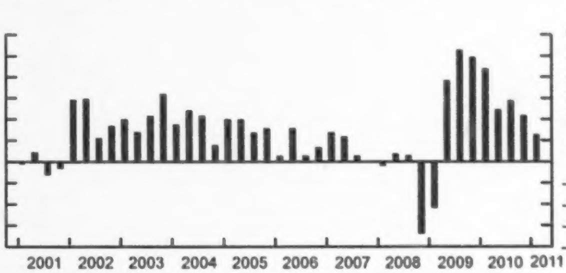

Greater: 60% Same: 8% Lesser: 32%

* Percentage of firms reporting faster growth minus percentage reporting slower growth

**Chart 2: . . . and they expect sales growth to increase over the next 12 months, but the balance of opinion has moderated**

Balance of opinion*

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?




Greater: 51% Same: 12% Lesser: 38%

* Percentage of firms reporting faster growth minus percentage reporting slower growth

*The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website at <www.bankofcanada.ca/en/bos/index.html>. The spring 2011 survey was conducted from 14 February to 10 March 2011. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.*

*The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.*

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cited the negative implications of high prices for energy and food on household spending as a factor dampening sales expectations. Benefiting from strong demand for commodities and related products, firms in the Prairies are the most optimistic about sales prospects over the next 12 months. Expectations for near-term U.S. economic growth have improved but remain relatively modest. A number of firms voiced concerns about the impact of the high Canadian dollar and strong foreign competition on their business over the medium to long term.

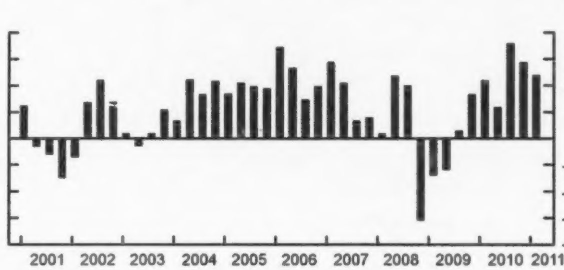
While the balance of opinion on investment in machinery and equipment moderated for the second consecutive survey, it remains solidly positive **(Chart 3)**, pointing to a rise in investment spending over the next 12 months. Most firms planning to increase investment expenditures were focused on either increasing output or enhancing productivity to improve their competitiveness. Firms planning lower levels of spending attributed this mainly to large investments made over the past year.

As in the winter survey, the balance of opinion on employment expectations is at a high level **(Chart 4)**. Intentions to increase employment are positive across sectors and regions, but are significantly more widespread among firms in the Prairies region, where many are looking to expand their workforce to meet demand.

**Chart 3: Firms expect to increase investment in machinery and equipment**

Balance of opinion*

Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?



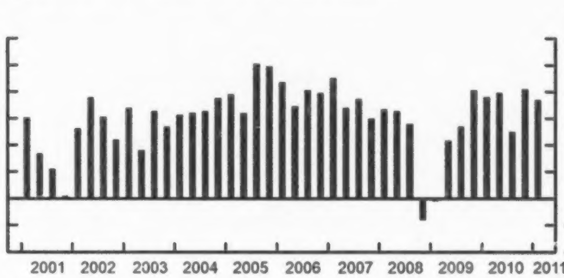

Higher: 46% Same: 33% Lower: 22%

* Percentage of firms expecting greater investment minus the percentage expecting less investment

**Chart 4: Firms expect to increase employment**

Balance of opinion*

Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?




Higher: 50% Same: 38% Lower: 13%

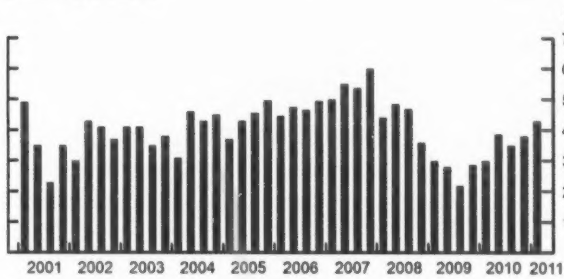
* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

## Pressures on Production Capacity

The percentage of firms indicating that they would have difficulty meeting an unexpected increase in demand moved up in the spring survey **(Chart 5)**. Given the higher levels of activity in the resource sector, capacity constraints have become more prevalent among firms located in the Prairies, where many reported that their workforce is now fully utilized. Overall, the percentage of firms reporting capacity constraints is at the average level for the survey.

**Chart 5: Capacity pressures moved up . . .**

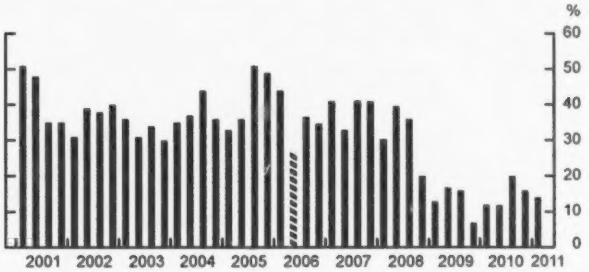
How would you rate the current ability of your firm to meet an unexpected increase in demand?




Significant difficulty: 5% Some difficulty: 38%

**Chart 6: . . . but reports of labour shortages remain low**

Does your firm face any shortages of labour that restrict your ability to meet demand?




Yes: 14%

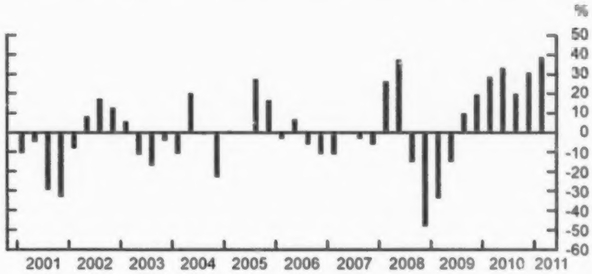
The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand, however, remains near the low levels observed during the recession **(Chart 6)** across all regions and sectors. While firms generally see less labour market slack compared with 12 months ago, and some cite concerns about the potential for labour shortages in the future, most believe that they currently have adequate access to labour.

**Chart 7: Firms expect input prices to increase at a greater rate . . .**

Balance of opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?




Greater: 53% Same: 30% Lesser: 15% No response: 2%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

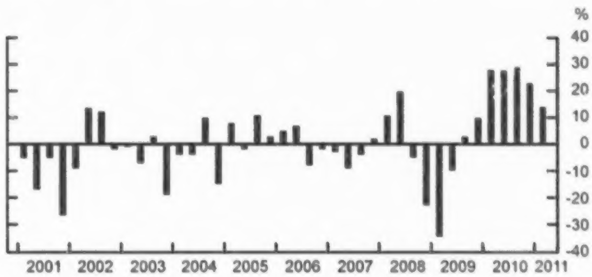
## Prices and Inflation

The balance of opinion on input prices moved up to a survey high **(Chart 7)** and indicates that firms expect the prices of inputs to increase at a greater rate over the next 12 months than they did over the past 12 months. Firms' expectations regarding input costs are largely based on the recent strength in the prices of commodities and related inputs.

**Chart 8: . . . and output prices to increase at a greater rate as well**

Balance of opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?




Greater: 46% Same: 22% Lesser: 32% No response: 1%

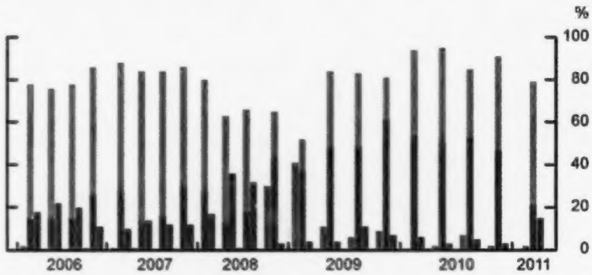
* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

On balance, firms expect their output prices to increase at a greater rate over the next 12 months **(Chart 8)**. This result is driven by firms in the Prairies and is consistent with stronger indicators of demand and more evident capacity constraints among firms in that region. Firms in other parts of the country were more likely to report facing strong competition, or that they had increased output prices over the past 12 months and were expecting a slower rate of increase over the next 12 months.

Driven by food and energy prices, expectations regarding total CPI inflation over the next two years rose in this survey. While the majority of firms still expect inflation to remain within the Bank's inflation-control range of 1 to 3 per cent, more firms now expect inflation to be in the upper half of that range **(Chart 9)**.

**Chart 9: Inflation expectations moved up but remain concentrated within the Bank's inflation-control range**

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?



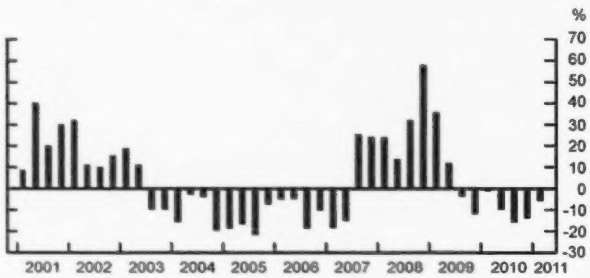

## Credit Conditions

The balance of opinion on credit conditions is slightly negative, suggesting that credit conditions eased over the past three months **(Chart 10)**. An improvement in the market's receptiveness to new issuance of debt or equity and lower borrowing costs were the two factors cited most often by firms reporting an easing in credit conditions.

**Chart 10: Credit conditions eased over the past three months**

Balance of opinion*

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?




* Percentage of firms reporting tightened minus percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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